



## CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

May 8, 1998

### **H.R. 3433**

### **Ticket to Work and Self-Sufficiency Act of 1998**

*As ordered reported by the House Committee on Ways and Means  
on May 6, 1998.*

#### **SUMMARY**

H.R. 3433, the Ticket to Work and Self-Sufficiency Act of 1998, would revamp the system under which people collecting disability benefits from the Social Security and Supplemental Security Income programs receive vocational rehabilitation services. The bill would also require several demonstration projects, give certain members of the clergy another opportunity to enroll in the Social Security system, and tighten restrictions on the payment of Social Security benefits to certain prisoners. CBO estimates that the bill would add to the federal surplus by \$38 million over the 1999-2003 period; of that amount, \$11 million is in Social Security (which is legally off-budget) and the rest in other programs (which are on-budget).

H.R. 3433 contains no intergovernmental mandates, as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

#### **ESTIMATED COST TO THE FEDERAL GOVERNMENT**

The estimated budgetary impact of H.R. 3433 is summarized in the following table. The costs of this legislation fall within budget functions 570 (Medicare), 600 (Income Security), and 650 (Social Security).

Table 1. Summary of Estimated Budgetary Effects of H.R. 3433

	By Fiscal Year, in Millions of Dollars					
	1998	1999	2000	2001	2002	2003
<b>DIRECT SPENDING</b>						
Spending Under Current Law						
Old-Age, Survivors, and Disability Insurance	375,785	391,477	408,764	427,736	448,711	471,221
Supplemental Security Income	27,301	28,563	29,985	31,595	33,371	35,302
Medicare <sup>a</sup>	196,941	208,178	218,505	239,668	246,198	270,931
Medicaid	<u>100,506</u>	<u>108,418</u>	<u>115,014</u>	<u>122,594</u>	<u>130,891</u>	<u>140,742</u>
Total	700,533	736,636	772,268	821,593	859,171	918,196
Proposed Changes						
Old-Age, Survivors, and Disability Insurance	0	2	1	7	10	7
Supplemental Security Income	0	-1	-5	-6	-6	-8
Medicare <sup>a</sup>	0	0	0	b	b	2
Medicaid	<u>0</u>	<u>b</u>	<u>b</u>	<u>b</u>	<u>b</u>	<u>b</u>
Total	0	1	-4	1	5	1
Off-Budget (OASDI)	0	2	1	7	10	7
On-Budget	0	-1	-5	-6	-6	-6
Proposed Spending Under H.R. 3433						
Old-Age, Survivors, and Disability Insurance	375,785	391,479	408,765	427,743	448,721	471,228
Supplemental Security Income	27,301	28,562	29,980	31,589	33,365	35,294
Medicare <sup>a</sup>	196,941	208,178	218,505	239,668	246,198	270,933
Medicaid	<u>100,506</u>	<u>108,418</u>	<u>115,014</u>	<u>122,594</u>	<u>130,891</u>	<u>140,742</u>
Total	700,533	736,637	772,264	821,594	859,176	918,197
<b>REVENUES</b>						
Proposed Changes						
Off-Budget (OASDI)	0	3	7	9	9	10
On-Budget	<u>0</u>	<u>b</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>
Total	0	3	8	10	10	11
<b>DEFICIT (-) OR SURPLUS</b>						
Proposed Changes						
Off-Budget (OASDI)	0	b	7	2	-1	2
On-Budget	<u>0</u>	<u>1</u>	<u>6</u>	<u>7</u>	<u>7</u>	<u>7</u>
Total	0	2	12	9	6	9

Note: Components may not sum to totals due to rounding.

OASDI = Old-Age, Survivors, and Disability Insurance.

a. Medicare consists of outlays of the Hospital Insurance and Supplementary Medical Insurance trust funds, less premiums.

b. Less than \$500,000

## **BASIS OF ESTIMATE**

For purposes of estimating the budgetary effects of H.R. 3433, CBO assumes enactment in September 1998. CBO's estimate of the bill's effects, by provision, are detailed in the following table and explained below.

### **Ticket to Work and Self-Sufficiency Program (Section 2)**

Section 2 of H.R. 3433 would change the way that vocational rehabilitation (VR) services are provided to recipients of Social Security Disability Insurance (DI) and Supplemental Security Income (SSI) benefits. It would also require that SSA test the savings (or costs) of some alternative methods of treating earnings in the DI program.

**Current Law.** DI and SSI recipients currently receive VR services chiefly through state VR agencies. Data on their experience under those programs are sketchy. The Social Security Administration (SSA) attempts to spot good candidates for VR and refer them for services when it awards benefits, but it does not monitor what happens to them next. VR agencies accept only a fraction of the candidates referred. SSA reimburses the VR agencies for the cost of services rendered if the beneficiary has performed 9 consecutive months of substantial gainful activity (SGA, currently defined by regulation as earnings of more than \$500 a month). In 1996, SSA began recruiting alternate providers under the Referral System for Vocational Rehabilitation Providers (RSVP) program. Candidates must first be referred to and rejected by the state VR agencies, and the alternate providers face the same reimbursement system (that is, a single payment after 9 months of substantial work). Thus, VR for DI and SSI recipients remains fundamentally a state program.

Scattered clues suggest that approximately 10 percent to 15 percent of new DI and SSI recipients are referred to state VR agencies and that about 10 percent of those referred are accepted. Recently, SSA has made approximately 650,000 DI awards a year; thus, it is likely that about 60,000 to 90,000 a year were referred to VR and perhaps 6,000 received services. SSA has consistently paid for about 4,000 claims per year for VR services provided to DI recipients. SSA has also steadily paid about 4,000 claims for VR services to SSI recipients. Since about 2,000 claims are for people who collect benefits under both programs, total claims reimbursed are about 6,000 a year.

Table 2. Estimated Budgetary Effects of Provisions of H.R. 3433

	By Fiscal Year, in Millions of Dollars									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>Section 2</b>										
Tickets Program for Vocational Rehabilitation Clients-DI										
Payments to Program Manager	1	2	1	1	2	3	3	4	4	4
Milestone Payments to Providers	0	a	1	5	11	17	21	24	28	33
Incentive Payments to Providers	0	a	a	3	12	27	48	66	87	109
Gradual Phase-out of Current										
VR System	0	a	a	-3	-8	-14	-21	-32	-44	-58
Benefits Avoided	0	a	a	-4	-20	-48	-84	-98	-112	-126
Extra Benefits Paid	<u>0</u>	<u>a</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>5</u>	<u>7</u>	<u>10</u>	<u>13</u>	<u>16</u>
Subtotal, DI	1	2	3	5	1	-10	-26	-27	-24	-22
Resulting Medicare Savings <sup>b</sup>	0	0	a	a	1	1	1	-2	-9	-20
Total, Provision	1	2	3	5	1	-9	-25	-29	-33	-41
Tickets Program for Vocational Rehabilitation Clients-SSI										
Payments to Program Manager	a	1	a	1	1	1	2	2	2	2
Milestone Payments to Providers	0	a	1	3	6	9	10	12	14	16
Incentive Payments to Providers	0	a	a	1	3	7	12	17	22	28
Gradual Phase-out of Current										
VR System	0	a	a	-1	-4	-7	-11	-16	-22	-29
Benefits Avoided	0	a	a	-1	-5	-12	-22	-25	-29	-32
Extra Benefits Paid	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Subtotal, SSI	a	1	1	2	a	-3	-8	-11	-13	-15
Resulting Medicaid Savings	c	c	c	c	c	c	c	c	c	c
Total, Provision	a	1	1	2	a	-3	-8	-11	-13	-15
"\$1-for-\$2" Demonstration Projects <sup>c</sup>										
Contractor Costs	0	a	4	5	6	6	4	4	4	4
DI Benefit Costs	0	0	3	8	13	18	19	18	18	18
Medicare Costs	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2</u>	<u>4</u>	<u>7</u>	<u>9</u>	<u>9</u>	<u>9</u>
Total, Provision	0	0	7	13	20	28	29	31	31	31
<b>Section 3</b>										
Extension of Medicare from 3 years to 5 years for clients suspended from DI who have used a ticket <sup>d</sup>										
	0	0	0	0	a	a	1	0	0	0
<b>Section 5</b>										
Extension of DI Demonstration Project Authority until June 10, 2001										
	3	5	5	3	a	0	0	0	0	0

Continued

Table 2. Continued

	By Fiscal Year, in Millions of Dollars									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>Section 7</b>										
Prisoner-Related Provisions										
Payments to Prison Officials--										
OASDI	2	7	7	8	9	10	10	10	10	10
Payments to Prison Officials--SSI	0	1	1	1	1	1	1	1	1	1
Savings in Benefits--OASDI	-3	-13	-15	-18	-20	-20	-20	-20	-20	-20
Savings in Benefits--SSI	<u>-1</u>	<u>-6</u>	<u>-7</u>	<u>-8</u>	<u>-9</u>	<u>-10</u>	<u>-10</u>	<u>-10</u>	<u>-10</u>	<u>-10</u>
Total, Provision	-3	-13	-15	-17	-20	-20	-20	-20	-20	-20
<b>Section 8</b>										
Two-Year Open Season for Enrollment by Clergy										
Off-Budget (OASDI) Revenues	3	7	9	9	10	10	10	11	11	11
On-Budget (HI) Revenues	1	2	2	2	2	2	2	2	3	3
Other On-Budget Revenues	a	-1	-1	-1	-1	-1	-1	-1	-1	-1
OASDI Benefits	<u>a</u>	<u>a</u>	<u>a</u>	<u>a</u>	<u>a</u>	<u>a</u>	<u>a</u>	<u>a</u>	<u>a</u>	<u>a</u>
Total, Provision										
(Effect on Deficit)	-3	-8	-10	-10	-11	-11	-11	-12	-12	-13
<b>Total</b>										
Outlays										
On-Budget	-1	-5	-6	-6	-6	-7	-9	-14	-22	-35
Off-Budget	<u>2</u>	<u>1</u>	<u>7</u>	<u>10</u>	<u>7</u>	<u>4</u>	<u>-14</u>	<u>-15</u>	<u>-13</u>	<u>-11</u>
Total	1	-4	1	5	1	-2	-23	-29	-35	-46
Revenues										
On-Budget	a	1	1	1	1	1	1	1	1	1
Off-Budget	<u>2</u>	<u>7</u>	<u>9</u>	<u>9</u>	<u>10</u>	<u>10</u>	<u>10</u>	<u>11</u>	<u>11</u>	<u>11</u>
Total	3	8	10	10	11	11	11	12	12	13
Deficit (-) or Surplus (+)										
On-Budget	1	6	7	7	7	8	10	15	23	36
Off-Budget	<u>a</u>	<u>7</u>	<u>2</u>	<u>-1</u>	<u>2</u>	<u>6</u>	<u>24</u>	<u>26</u>	<u>24</u>	<u>22</u>
Total	2	12	9	6	9	14	35	41	47	58

Note: Components may not sum to totals due to rounding.

a. Less than \$500,000.

b. These savings would occur under current Medicare law. Section 3 of the bill would also extend Medicare coverage for certain suspended recipients.

c. CBO expects that the vast majority of rehabilitated SSI recipients would continue to get Medicaid coverage through the 1619(b) program.

d. Under the proposal, the Medicare extension would cover only those recipients who returned to work and used a "ticket" under the new program. The provision would expire 7 years after enactment.

e. The bill would require SSA to test graduated reductions in benefits (such as "\$1-for-\$2" above \$85 or above SGA, currently \$500) on a sufficient scale and for a long enough period to permit valid statistical analysis.

Clearly, some DI and SSI recipients also return to work without the help of VR agencies. Research suggests that only 10 percent to 20 percent of DI recipients ever work after they start collecting benefits, and only 2 percent to 3 percent eventually have benefits withheld. In contrast, SSA reimburses claims for VR services for fewer than 1 percent of recipients. Thus, for each VR success, one or two other DI recipients go back to work and are suspended from the rolls without VR.

The DI program has several features that are meant to smooth beneficiaries' return to work. Applicants must show that they are incapable of substantial work in order to be awarded benefits. If they do work, the law permits them to earn unlimited amounts for a 9-month period (known as trial work) and a subsequent 3-month grace period before suspending benefits. During the next 3 years--a period known as the extended period of eligibility, or EPE--those beneficiaries may automatically return to the DI rolls if their earnings sink below \$500. Furthermore, Medicare benefits (for which DI beneficiaries qualify after two years on the rolls) also continue during the 3 years of extended eligibility.

The SSI disability program is restricted to people with low income and few resources. Although applicants for SSI benefits must meet the same disability criteria as in the DI program, the SSI program's subsequent treatment of earnings differs somewhat. SSI recipients who work get a reduced benefit (essentially, losing \$1 of benefits for each \$2 of earnings over \$85 a month) but do not give up their benefit entirely. If their earnings top \$500 but they are still medically disabled, they move into section 1619(a) status (and still collect a small cash benefit). If their earnings rise further, they enter 1619(b) status (where they collect no cash benefit but still qualify for Medicaid).

**H.R. 3433.** The bill would revamp the VR system by permitting nearly any recipient who desires VR to receive it, by permitting clients to choose from a variety of providers in addition to state VR agencies, and by stretching out reimbursements to providers for up to 5 years, contingent on their clients' sustained absence from the rolls.

Under H.R. 3433, SSA would issue tickets to DI and SSI beneficiaries that they could assign to approved VR providers, whether state, private for-profit, or nonprofit. The bill would grant wide latitude to SSA in deciding the terms and conditions of the tickets; SSA tentatively plans to issue tickets to new beneficiaries at the time of award, unless they are deemed likely to recover medically, and to current beneficiaries following a continuing disability review. By accepting a ticket, providers--labeled "networks" in the bill--would agree to supply services, such as training, assistive technology, physical therapy, or placement. A program manager, selected by SSA, would aid in recruiting providers and handling the nuts-and-bolts administration of the program.

Providers could choose between two forms of reimbursement from SSA. One system would be based solely on outcomes; the provider would receive 40 percent of the average DI or SSI benefit for up to 5 years, so long as the client stayed off the rolls. Some providers fear, though, that they would experience acute cash-flow problems under such a system. To address that concern, the bill also offers a blended system, dubbed the "milestones-outcome" system. Under that system, SSA would make some payments earlier, but would trim subsequent payments to ensure that the overall cost (calculated on a net present value basis) did not exceed the cost of a pure outcomes system.

The new program would be phased in gradually. H.R. 3433 calls for it to start in selected areas a year after enactment, and to operate nationwide six years later. Because new providers would continue to come on board even after the program starts operation in an area, CBO assumes that it would take nearly 10 years for the new program to run at its full potential.

CBO assumes that about 7 percent of newly-awarded beneficiaries would seek VR services if they were readily available, versus only about 1 percent who receive them under current law. Both the Transitional Employment Demonstration (TED, a demonstration conducted in the mid-1980s and confined to mentally retarded recipients) and Project Network (a demonstration begun in 1992 and open to both DI and SSI beneficiaries) suggested that about 5 percent of beneficiaries would enroll in VR if given the chance. CBO judged that the level of interest ultimately would slightly exceed 5 percent for two reasons. First, intake under Project Network developed bottlenecks, which may have discouraged some potential participants. Second, Project Network barred any recipients who were employed or self-employed from enrolling; no such bar would be in place under H.R. 3433, however, and those recipients would probably be interested in receiving services and would be attractive to providers.

Research suggests that getting VR raises the propensity to work, and only work can lead to an earnings-related suspension. Based on several econometric studies and on the results of the TED demonstration, CBO assumes that slightly over half of the extra VR recipients would work. That raw figure, however, can easily exaggerate the effectiveness of VR. The handful of beneficiaries who would sign up for VR are probably the most motivated, and many would have worked anyway. In fact, CBO assumes that one effect of H.R. 3433 would be to enable providers to be reimbursed for providing services for many people who would have worked anyway.

These expected effects can be illustrated by following the experiences of one hypothetical cohort of 650,000 disabled workers--the approximate volume of annual awards in 1992

through 1997. Under current law, about 6,000 would be served under the state VR programs; 4,000 of them would eventually generate a reimbursement to the state program, and would be suspended for at least a month. Another 9,000 would be suspended due to earnings, for at least one month, without any reimbursement to VR. Thus, total suspensions would be about 13,000, or about 2 percent of the cohort, under current law. CBO assumes that, if those beneficiaries could freely enroll in VR using a "ticket," about 7 percent or 47,000 would get VR services. Most of those VR clients would work, and many (about 12,000) would be suspended for at least one month, an increase of 8,000 in VR-reimbursed cases. However, CBO assumes that about 6,000 of these workers would have gone back to work unaided. Thus, for this cohort, net VR-related suspensions would be 2,000 higher.

In estimating H.R. 3433, CBO adjusted those hypothetical figures for its caseload projections and timing factors. First, CBO assumes that the volume of disabled-worker awards gradually climbs from 625,000 in 1998 to about 810,000 in 2005. Second, CBO also assumed that some extra rehabilitations would occur among the nearly 5 million current DI beneficiaries, not just among new awards, although current beneficiaries are generally poorer candidates for VR than new applicants with more recent work experience. Third, CBO adjusted the numbers for the gradual phase-in of the new system. Under the bill's schedule, assuming enactment by September 1998, the first services would be rendered at a handful of sites in fiscal year 2000. If those clients engaged in trial work in 2001, the first extra suspensions would occur in 2002. Each year, more areas would be brought into the new system.

Specifically, CBO assumed that the number of net additional suspensions--that is, suspensions that would not occur in the absence of the new program--would equal only 400 in 2002, 1,800 in 2003, and between 3,000 and 4,000 a year in 2004 through 2008. Gross suspensions that involve reimbursement to a VR provider would range between 4,000 and 5,000 a year under current law, but would be markedly higher--about 700 more in 2002 and about 9,000 more in 2008--under the proposal. And the number of suspensions involving no reimbursement to VR would drop from about 9,000 in 2002 to about 5,500 in 2008.

CBO also had to make assumptions about recidivism. Many studies have documented that DI recipients who leave the rolls often return. It is not clear whether recipients of VR services are more or less likely to return to the rolls than others; some evidence suggests that the extra boost provided by VR fades over time. Because H.R. 3433 proposes to pay providers for up to 5 years, but only if the recipient stays off the rolls, assumptions about recidivism are critical. Based on a variety of sources, CBO assumes that recipients suspended from the rolls have about a two-thirds chance of still being suspended one year later, about a one-half chance 3 years later (when, technically, their DI entitlement is terminated), and a 40 percent chance after 5 years.



*Effects of the Tickets Program in DI.* The budgetary consequences of H.R. 3433, from the standpoint of the DI program, would consist of seven effects:

- o Payments to the program manager--SSA would hire a program manager to coordinate issuance of tickets, the recruitment of providers, and other tasks. Based on a similar arrangement in the RSVP program, CBO assumes that payments to the program manager would amount to just a few million dollars a year.
- o Milestone payments to providers--As explained earlier, the bill would give providers a choice between a pure outcome-based system (in which providers would get only periodic payments during the period of suspension) and a blended outcome-milestone system (in which they could get some money earlier). CBO assumes that most providers would opt for the blended system, which CBO assumes to consist of \$500 after several months of work and a \$1,000 bonus on the date of suspension. Placements would be considerably easier for providers to achieve than suspensions. In 2002, milestone payments would be \$1 million for the first batch of 1,000 gross suspensions (mostly people enrolled in 2000, the first year of services) and another \$4 million for about 8,000 working clients (mostly people served in 2001) for a total of \$5 million. In 2008, these payments would be about \$14 million for 14,000 gross suspensions and another \$19 million for about 38,000 work efforts, or \$33 million total.
- o Incentive payments to providers--The incentive payments would occur over a period of up to 5 years if the beneficiary remains off the rolls. In the pure outcomes system, they would be 40 percent of average benefits. CBO assumes that most providers would opt for the blended payment system, under which--in return for getting some earlier milestone payments--they would accept incentive payments of 30 percent. In 2002, 1,000 suspended beneficiaries would each generate an incentive payment of 30 percent times about \$800 a month, or about \$3 million for the year. In fiscal year 2008, gross suspensions of rehabilitation clients over the 2004-2008 period are assumed to be about 50,000. Some of those would have returned to the rolls, and a few would have died; CBO assumes that 33,000 of the 50,000 would remain suspended. At an average benefit of about \$900 a month, incentive payments would total \$109 million.
- o Gradual phase-out of current VR system--CBO assumes that, under current law, the DI trust fund would reimburse claims for VR services (principally claims from state agencies) of about 4,000 at present (at an average cost of about \$11,000), growing to about 5,300 in 2008 (at an average cost of about \$14,000). The new program would

gradually replace the current-law system. Even by 2008, a few vestiges of the old system would remain; roughly 20 percent of services rendered in 2006, for example, might still lie outside ticket areas and therefore would generate reimbursements in 2008 (allowing one year for services and one year for trial work) under the old system. Thus, in 2008, the current-law VR program is expected to cost about \$70 million, and about 80 percent of that would have been superseded by the new system.

H.R. 3433 would grant state VR agencies the option of remaining in the current reimbursement system--that is, charging reimbursement for the full amount of costs incurred after 9 months of work. Whether or not those agencies would choose to remain, though, is largely immaterial to CBO's estimate; most clients would be served by other providers.

- o Benefits avoided--The various payments to providers discussed above all depend on the number of gross rehabilitations. The savings in DI benefits, in contrast, depend on the number of net or extra rehabilitations. That distinction is important: when providers serve clients who would have worked and eventually been suspended anyway, they do not generate savings in DI benefits.

In 2002, of the total 1,000 suspensions of ticket holders, only 400 would constitute extra rehabilitations. At an average benefit of about \$800 a month, savings would be \$4 million. By 2008, CBO assumes that there would have been a total of 53,000 gross rehabilitations over the 2002-2008 period of which 20,000 would represent extra rehabilitations. Under CBO's assumptions about recidivism, about 12,000 of those 20,000 would still be off the rolls; at an average benefit of about \$900, benefit savings would be about \$126 million.

- o Extra benefits paid--Some people might file for DI benefits in order to get VR services, or may even be encouraged to do so by prospective providers (for example, by an insurance company that helps to run their employer's private disability or workers' compensation coverage). For those filers, the entire benefit cost (for any time they spend on the rolls) and the VR cost (if they do eventually get suspended) would be a net cost to the DI program.

To some extent, SSA could minimize this problem by setting the terms and conditions under which it would issue tickets--for example, by denying them to beneficiaries who are expected to experience a medical recovery quite soon. But some such filers might still seep through. CBO assumes that, when fully phased in, about 500 such filers would be induced to apply each year, and half would in fact be rehabilitated

after a year or two on the rolls. By 2008, under the phase-in assumptions used by CBO, there would have been a total of 2,400 awards to induced filers; 1,400 would still be on the rolls; and benefits to them, assuming an average monthly check of \$900, would cost about \$16 million.

- o Resulting Medicare savings--DI recipients who return to work automatically continue to receive Medicare coverage for 3 years after their suspension from DI. By leading to the rehabilitation and suspension of more DI recipients, H.R. 3433 would be expected to generate some savings in Medicare. DI beneficiaries who are capable of working are probably healthier than other beneficiaries, and their per-capita Medicare cost therefore less than average.

Under CBO's assumption that the first services would be rendered in 2000 and the first resulting suspensions in 2002, Medicare savings would begin in 2005. Of the 400 extra suspensions in 2002, only 200 are still suspended when they complete their EPE in 2005, and Medicare savings would be a scant \$1 million. By 2008, 10,000 extra suspensions are assumed to have occurred over the 2002-2005 period; 5,000 would still be off the rolls; and \$20 million in Medicare savings would result.

On balance, over the 1999-2003 period, CBO posits a small net cost in the DI program from the proposed tickets, mainly because there would be very few extra rehabilitations but there would be some startup costs and a few dollars paid to induced filers. Later, CBO posits small net savings, chiefly because the DI benefit savings from the extra suspensions outweigh, by a slim margin, the costs of paying for those beneficiaries who are skimmed by the providers. Obviously, different assumptions about the relative sizes of these groups would change the conclusions.

*Effects of the Tickets Program in SSI.* H.R. 3433 would also bring SSI participants into the new tickets to work program. CBO estimated effects in the SSI program in a manner similar to its estimates for DI. There are a few notable differences.

The number of SSI recipients affected by the bill is generally assumed to be only half as many as in DI. Under current law, SSA generally pays for about 6,000 rehabilitations a year--4,000 in DI and 4,000 in SSI, of which 2,000 are concurrent. Under the bill, services rendered by providers to concurrent beneficiaries would essentially be compensated under the DI rules. Thus, to avoid double-counting concurrent beneficiaries, CBO generally assumed only half as many cases in its SSI estimates as in the analogous DI estimates.

Average benefits for disabled SSI beneficiaries are also only about half as large as in the DI program--in 2002, for example, about \$400 in SSI versus \$800 in DI. Therefore, all payments under the proposed system that are pegged to the average benefit, such as the incentive payments to providers, would be smaller in SSI. In fact, that provision has aroused concern that providers would be less willing to provide services to the SSI population. CBO implicitly assumes that providers would serve this group, perhaps emphasizing cheaper services with repeated interventions if necessary.

Because SSI is limited to beneficiaries with low income and few resources, CBO assumed that there would be few induced filers. CBO also assumed that most SSI beneficiaries affected by the bill would retain Medicaid coverage through section 1619(b).

The upshot of H.R. 3433 in the SSI program is a pattern that resembles that for DI: small early costs, giving way to small savings after 2003.

*Demonstration Projects.* Under current law, after completing the trial work period and the 3-month grace period (during which earnings are disregarded), a disabled worker gives up his or her entire benefit in any month that earnings exceed SGA (\$500). Both anecdotal and statistical evidence suggest that many beneficiaries balk at that, instead quitting work or holding their earnings just below the threshold. Some advocates favor, instead, cutting benefits by \$1 for every \$2 of earnings over \$500 a month. More modestly, some favor a treatment of earnings more like the SSI program's--a cut of \$1 in benefits for every \$2 of earnings over \$85 a month.

It is very likely that such proposals would encourage more people who are already on the DI rolls to work. Although fewer beneficiaries would be suspended (i.e., have their benefit reduced to zero), many might have their benefit substantially reduced. A major concern about such proposals is that they would encourage an unknown number of people to file for benefits. Survey data suggest that there are millions of severely impaired people who are nevertheless working and not collecting DI. Filing for benefits, and working part-time, might improve their standards of living. That incentive would be much stronger if the DI program liberalized its treatment of earnings. The SSA Actuary's office in 1994 estimated that applying a \$1-for-\$2 policy for earnings above \$500 would cost \$5 billion in extra DI benefits over a 5-year period and that setting the threshold at \$85 would cost \$2 billion.

H.R. 3433 would require SSA to conduct demonstrations to test the effects of a \$1 reduction in benefits for each \$2 of earnings. It would require that SSA conduct the demonstrations on a wide enough scale, and for a long enough period, to permit valid analysis of the results. CBO assumed that, to comply with those criteria, the demonstrations would have to include

perhaps half a dozen small states, that the intake phase of the project would have to last three or four years to permit observation of the expected induced filers and that the incentives themselves would have to be promised to the beneficiaries for an indefinite period. Because the demonstrations would pose formidable issues of design and administration, CBO assumes they would not get under way until 2001. CBO also assumes that the demonstration would be conducted in areas with and without the tickets to work and self-sufficiency, to enable the effect of the incentives to be isolated from the effects of the new VR program. Even a relatively small-scale demonstration might thereby apply to approximately 2 percent to 3 percent of the nation. Multiplying that percentage times the DI benefit costs contained in the Actuaries' 1994 memo suggests that the demonstration would, after intake is complete, cost almost \$20 million in extra DI benefits a year. It would also lead to slightly higher Medicare costs, since the induced filers would qualify for Medicare after two years on the DI rolls. Finally, CBO assumes that running the demonstrations and collecting and analyzing data would be handled by an expert contractor, at a cost of several million dollars a year. In sum, the \$1-for-\$2 demonstration projects mandated by the bill are estimated to cost \$190 million over the 2001-2008 period.

### **Extended Medicare Coverage (Section 3)**

As noted before, DI recipients who give up their cash benefits because of earnings can continue to get Medicare for 3 years. H.R. 3433 proposes to lengthen that period to 5 years. The extended coverage would only be available to beneficiaries who had registered a ticket with a VR provider. Furthermore, the coverage would expire 7 years after enactment (that is, in September 2005, under CBO's assumption).

Since CBO assumes that the first batch of VR clients under the new tickets program would be suspended in 2002, their 3-year period of extended Medicare eligibility under current law would expire in 2005. Therefore, the proposed extension would expire before it would have significant costs. CBO assumes costs of just \$1 million in 2005.

### **Other Provisions**

The other provisions of H.R. 3433 are mostly technical corrections and clarifications to the Social Security Act. Those technical corrections have passed the House twice previously, in September 1996 (H.R. 4039) and April 1997 (H.R. 1048). As pointed out in previous CBO estimates, most do not have budgetary implications. Three sections do have budgetary effects.

**Demonstration Project Authority (Section 5).** SSA has the authority to conduct certain research and demonstration projects that occasionally require waivers of provisions of Title II of the Social Security Act. That waiver authority expired on June 10, 1996. This bill would extend it until June 10, 2001. This extension would be the fifth since the waiver authority was enacted in 1980. This general waiver authority should not be confused with the so-called \$1-for-\$2 demonstrations that would be required by Section 2 of this bill; those demonstrations are costlier and longer-lasting than the modest projects that SSA would likely conduct on its own.

When the waiver authority has been in effect, SSA has generally spent between \$2 million and \$4 million annually on the affected projects. Because the proposed extension would be for 3 years, CBO judges that it would lead to outlays of \$15 million, chiefly in fiscal years 2000 and 2001.

**Provisions Affecting Prisoners (Section 7).** H.R. 3433 would also strengthen restrictions on the payment of Social Security benefits to prisoners. Current law sets strict limits on the payment of SSI benefits to incarcerated people and somewhat milder limits on payments of OASDI. SSI recipients who are in prison for a full month--regardless of whether they are convicted--are to have their benefits suspended while they are incarcerated. OASDI recipients who have been convicted of an offense carrying a maximum sentence of 1 year or more are to have their benefits suspended. Those who are convicted of lesser crimes, and those who are in jail awaiting trial, may still collect OASDI benefits. Those provisions are enforced chiefly by an exchange of computerized data between the Social Security Administration and the Federal Bureau of Prisons, state prisons, and some county jails. Those agreements are voluntary and, until recently, involved no payments to the institutions.

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 changed that arrangement by directing SSA to pay institutions for reporting information that led to the identification of ineligible SSI recipients. The payment is \$400 if the institution reports information within 30 days of confinement and \$200 if the report is made 30 to 90 days after confinement. The law also exempts matching agreements between SSA and correctional institutions from certain provisions of the Privacy Act.

This bill would establish analogous arrangements for the OASDI program. It would also drop the requirement that OASDI benefits be suspended only if the maximum sentence for the offense is 1 year or more. (A conviction would still be required; inmates who are in jail while they await trial could continue to collect benefits.) CBO estimated the effects of this provision, like its predecessor in the welfare reform law, by analyzing data from several sources that suggest about 4 percent to 5 percent of prisoners were receiving Social Security,

SSI benefits, or both before incarceration. Reports from SSA's Inspector General showed that some of those prisoners were overlooked under matching arrangements either because their institution had not signed an agreement, had not renewed it promptly, or did not submit data on schedule.

CBO estimates that, over the 1999-2003 period, the provision in H.R. 3433 would lead to payments of \$32 million to correctional institutions out of the OASDI trust funds and benefit savings of \$69 million, for a net saving of \$37 million. CBO also expects that the broader arrangement, by doubling the pool of potential payments, would encourage more correctional institutions to submit information accurately and promptly and would therefore lead to spillover savings in the SSI program amounting to nearly \$30 million over the 1999-2003 period.

**Open Season for Clergy to Enroll in Social Security (Section 8).** Under current law, ministers of a church are generally treated as self-employed individuals for the purpose of the Social Security payroll tax. However, ministers who are opposed to participating in the program on religious principles may reject coverage by filing with the Internal Revenue Service before the tax filing date for their second year of work in the ministry. H.R. 3433 would give those ministers a chance to revoke their exemptions. It would give them a two-year window--ending on the tax filing deadline for the second taxable year beginning after December 31, 1998--to exercise that option.

In 1977 and 1986, the clergy were offered a similar opportunity to opt back into Social Security. Based on that experience, CBO estimates that about 3,500 ministers would take advantage of the opportunity. CBO estimates that the clergy who elect coverage would pay about \$3 million in Social Security (OASDI) taxes, which are off-budget, in 1999 and \$10 million a year thereafter. They would also pay Hospital Insurance (HI) taxes, which are on-budget, of about \$2 million a year. Finally, income tax revenues would drop slightly because, as self-employed individuals, ministers paying Social Security could deduct a portion of that tax when computing income tax.

## **PAY-AS-YOU-GO CONSIDERATIONS:**

The Balanced Budget and Emergency Deficit Control Act of 1985 establishes pay-as-you-go procedures for legislation affecting direct spending or receipts. The projected changes in direct spending are shown in the table below for fiscal years 1999-2008. Only changes affecting on-budget outlays and receipts (that is, those in non-Social Security programs) affect the pay-as-you-go scorecard. For purposes of enforcing pay-as-you-go procedures,

only the effects in the current year, budget year, and the succeeding four years are counted.

Table 3. Summary of Pay-As-You-Go Effects of H.R. 3433

	By Fiscal Year, in Millions of Dollars									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Change in Outlays	-1	-5	-6	-6	-6	-7	-9	-14	-22	-35
Change in Receipts	a	1	1	1	1	1	1	1	1	1

Note: Components may not sum to totals due to rounding.

a. Less than \$500,000.

Social Security outlays and receipts do not appear on the pay-as-you-go scorecard, but the House of Representatives tracks them separately. That tally includes effects only for the year in which the legislation takes effect and the four subsequent years; for H.R. 3433, the relevant years are 1998 through 2002. It also includes balances carried over from laws enacted in previous years, such as the Contract with America Advancement Act (Public Law 104-121) enacted in 1996. Under the rules of the House, the Social Security scorecard includes only tax receipts and benefit outlays of the Social Security trust funds. Therefore, outlays for purposes other than benefits--such as the payments to VR providers and to prison officials that would occur under H.R. 3433--do not appear on the scorecard.



Table 4. CBO Estimate of Current Status of the Social Security Scorecard in the House of Representatives

	By Fiscal Year, in Millions of Dollars				
	1998	1999	2000	2001	2002
Scorecard at Start of 1998					
OASDI Taxes	146	80	--	--	--
OASDI Benefits	-77	-114	75	--	--
Net Effect	223	194	-75	--	--
Ticket to Work and Self-Sufficiency Act of 1998 (H.R. 3433)					
OASDI Taxes	--	8	9	9	9
OASDI Benefits	0	-3	-13	-11	-12
Net Effect	0	11	22	20	21
Scorecard Assuming Enactment of H.R. 3433					
OASDI Taxes	146	88	9	9	9
OASDI Benefits	-77	-117	62	-11	-12
Net Effect	223	205	-53	20	21

Note: Components may not sum to totals due to rounding.

## ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

H.R. 3433 contains no intergovernmental mandates as defined in UMRA and would impose no costs on state, local, or tribal governments. Although state VR agencies would lose their monopoly--or, technically, their "right of first refusal"--to serve SSA clients, the budgetary impact of this change would be minimal. In addition, state and local prisons would collect additional payments for providing certain computerized data to SSA that CBO estimates would total \$35 million over the 1999 -2003 period.

## ESTIMATED IMPACT ON THE PRIVATE SECTOR

H.R. 3433 contains no private-sector mandates as defined in UMRA.

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